



Executive Summary DCUC Issues

The Defense Credit Union Council increased its profile within the Department of Defense and met with several senior OSD and Military Services leaders to discuss emerging issues that affect all Defense Credit Unions. We expect that raising these issues at the senior level, a constructive dialog will result, particularly those officials vested with policy authority in these areas. The items listed below are some of the issues that DCUC continues to advocate within the Department of Defense.

Introduction to the Defense Credit Union Council

The Defense Credit Union Council (DCUC) is a 501(c)(6) non-profit trade association whose members operate credit unions on military installations. The Council was formed 55 years ago to provide liaison, advocacy, and support services between DoD and our members.

Over the years, DCUC earned recognition as the voice for all Defense Credit Unions dedicated to providing financial services, support, and education to the military and veteran communities.

Our principal characteristics and achievements include the following:

- We are the voice to government and industry on all matters affecting the financial well-being of our military communities.
- We enjoy an enduring partnership with DoD and the federal financial regulators for the ultimate benefit of military members and their families.
- We are influential participants in the development of laws and regulations governing military financial matters (e.g., SCRA, MLA, etc.)
- In the mid-1980s, DoD asked us, along with the Association of Military Banks of America (AMBA) to create the Armed Forces Financial Network (AFFN) as the vehicle through which military members could maintain access to their funds following the conversion to the Direct Deposit program. AFFN remains today as DoD's "expeditionary banking" platform.

The Military Banking Program Generally

Defense Credit Unions have been operating as a DoD Public-Private-Partnership (P3) since 1929 and are a model of success for future P3 programs. Yet, the crux of our concerns is the gradual erosion of this P3 program. Over a number of years, DoD program officials have become increasingly less effective in resolving issues that impact financial institutions on military installations. Defense Credit Unions are left to fend for themselves and live with the consequences of inaction at lower levels of the bureaucracy.

As a result, what began as DoD's original Public-Private-Partnership, in which we and our members serve as valued members of the DoD financial readiness team, is becoming more like a government-contractor relationship. In fact, in some respects the P3 relationship is worse, where we and our members are being held at arm's length and are no longer consulted on banking program matters until it is too late.

Following is our perspective on this problem's symptoms and solution:

- Symptoms:
 - Responsibility for aspects of the military banking program is divided among numerous OSD and Service agencies.
 - OSD(C): Responsible for military banking program policy
 - OSD(P&R): Responsible for the financial readiness program
 - OSD(AT&L): Responsible for all real property matters
 - Military Services: Responsible for installations and execution of OSD policy
 - The military banking program operates out of DFAS-Columbus. It lacks the visibility necessary to bridge these jurisdictional gaps.
- Solution: OSD and the Services should engage with DCUC at senior policy levels where those gaps can be bridged and cross-functional solutions to problems can be achieved.
 - DCUC represents members whose aggregate corporate asset values exceed the combined values of the top three defense contractors.
 - DCUC members are partners, not contractors – the government does not pay our members for their services and they do not operate under contracts.
 - Consequently, DoD should engage the DCUC CEO at least at the same levels at which the largest defense contractor CEOs engage.

Defense Credit Union Operational Issues

Our member credit unions have encountered and are currently struggling with many issues. Over the past several years, the Department of Defense has failed to resolve them due to competing agendas within the various OSD and Services offices. Allowing this partnership to wither is not in anyone's interest. Defense Credit Unions provide a variety of tailored financial services the Department of Defense cannot legally provide. Thus, a new focus on the health and vitality of the military banking program will provide paths to resolution in each of the following areas:

- **MLA Final Rule** – The Military Lending Act Final Rule, which DoD issued in 2015, has many good provisions that protect military families from predatory financial practices. However, there are also a number of rules that cause concern for our members. Two particular aspects of the Final Rule are worth mentioning here:
 - Guaranteed Asset Protection (GAP) Insurance — Since the MLA Regulation was adopted in 2015, the DoD has twice issued guidance—the Interpretive Rule in 2016 and amendments to the Interpretive Rule in 2017 in an effort to clarify confusion with aspects of the regulation. While the Interpretive Rule has been somewhat beneficial to credit unions, there continue to be problematic areas. Specifically, QA2, which extends to credit-related products or services—such as GAP or credit insurance. These products no longer qualify for exemption from the requirements of the MLA Regulation, which causes harm to both the institution and more importantly, servicemembers and their families. The result is more uncertainty and confusion in the market.
 - Impact on Small Dollar Lending – Because the 36% MAPR is an “all in” rate – which means it includes all fees and interest – it has essentially gutted the small dollar lending in which our credit unions previously were able to engage. For example, one financial institution previously was able to loan as little as \$250 to soldiers who need a “bridge” between paydays. Today, the minimum MLA-conforming loan for that same financial institution is \$1,250. This sends our military members right back into the arms of predatory lenders.
 - Covered Borrower Check “Monopoly” – in the Final Rule, DoD awarded the nation's three largest credit reporting agencies (CRAs) a monopoly to engage in “batch” covered borrower checks. Efforts to open that monopoly to competition ultimately failed due to the onerous technical and other requirements that posed insurmountable obstacles to competition. Equifax is one of those CRAs. Its failure to securely maintain the personal data on millions of Americans recently made it the object of national criticism.

- **Credit Union Leases** – over the past few years, the leases our members have executed with the various Service real estate organizations have included new language (resulting in increased costs) that make it much more difficult for them to continue operating on military installations.
 - E.O. 13658 – This Obama Administration executive order established a minimum wage for government contractors almost \$3 higher than the federal minimum wage. While originally intended to apply only to contractors, the implementing regulations extended it to any non-federal entity occupying federal property. Banks and credit unions are now seeing lease language establishing this higher minimum wage for their employees. This poses obvious problems for on-base financial institutions that, unlike contractors, cannot charge these increased costs back to the government.
 - Termination Clauses – Recently, in response to potential BRAC implications, the Air Force has inserted new language in its leases that transfers financial responsibility from the government to the financial institution for any costs that result from “involuntary” termination. This includes costs to demolish and restore the land to its original condition. This transfer of financial responsibility harms the military member in terms of less access to loan capital and could potentially eliminate many of the smaller financial institutions as millions of dollars must be set aside for this contingency.

- **The Demise of the “One Bank – One Credit Union” Policy** – For a number of years, DoD has maintained a “one bank – one credit union” policy for military installations in accordance with 32 CFR Part 230. This policy has eroded in a number of respects which present current concerns for our member banks and credit unions:
 - Military Star Card – The Military Star Card, issued by the Army & Air Force Exchange Service (AAFES) is an outgrowth of its original Deferred Payment Program (DPP). Under that program, AAFES customers were extended “credit” in the form of installment payments for items purchased at BX/PX stores. Over a number of years, this program has evolved into a credit card issued by AAFES and used at all military exchanges. Its recent extension to base commissaries created new cause for concern. This card, unaffiliated with any financial institution, has evolved into a source of credit in a market previously served by on-base financial institutions. The loss of this source of revenue for on-base banks and credit unions has removed a significant incentive for those institutions to remain on installations. Our concern is that, as this evolution occurred, the Military Banking Program was not involved and neither we nor our members were consulted.
 - AAFES Automobile Financing – Similarly, AAFES offers its customers automobile financing which also extends “credit” in competition with credit unions. AAFES uses a variety of banks located off the installation which are not subject to the same rules and regulations as defense credit unions and there is no banking liaison officer involvement in terms of certifying rates and practices.

- MWR Advertisement – Off-base financial institutions are not authorized to advertise on military installations. This policy preserves the “one bank – one credit union” policy. However, in recent years, this prohibition has often been ignored, particularly by MWR organizations supported by off-base bank and credit union sponsors. This widespread circumvention of the “one bank – one credit union” policy essentially gives off-base financial institutions the benefits of operating on military installations (e.g., name recognition, attracting new customers, etc.) without the many accompanying burdens.
- **“Prohibited Source” Restrictions** – Recent stringent interpretations of 5 CFR Part 2635, “Standards of Ethical Conduct for Employees of the Executive Branch” have prohibited DoD employees from directly or indirectly, soliciting or accepting a gift from a prohibited source or given because of the employee's official position. In some instances, this strict interpretation has resulted in several commanders refusing any type of donation or sponsorship from its on-base credit union. There are two negative aspects of this overinterpretations:
 - Impact on Defense Community Programs – Because Defense Credit Unions are non-profit financial institutions, are located on the installation, and serve the entire defense community; they continue to contribute to programs that support the morale and welfare of their respective communities. Giving back is in our DNA and one of the benefits of membership in a Defense Credit Union. Yet, due to these new interpretations, these programs will go elsewhere and off the installation which only hurts our military communities because neither appropriated or non-appropriated funds can pay for these types of programs. This affects military balls, open houses, airshows, holiday giving, sports days, golf tournaments, award dinners, and a host of other programs that impact our military.
 - Negative Connotations and Impact on Goodwill – Essentially, there is a negative message conveyed that has a chilling effect on future Public-Private-Partnerships (P3) the Department is seeking to establish. Particularly when the Defense Credit Union is labeled as a prohibited source on one hand and a community partner on the other. This impacts goodwill when Defense Credit Unions are asked to open/operate a branch on the installation, perform financial services the government cannot provide (often at a loss in profits), are subject to additional regulations found in the DoD Financial Management Regulation, and receive zero federal funding in return.

- **European Union General Data Protection Regulation (GDPR)** – This regulation goes into effect in May 2018 and requires stronger protection from organizations that hold or process EU resident data, regardless of whether the company is in Europe. Specifically, the law requires appointment of a Data Protection Officer (DPO) for each EU country where the credit union “operates” or a transaction occurs. GDPR enforcement is scheduled to begin on May 25, 2018. Yet, there is no language in the existing Status of Forces Agreements (SOFA) that provide a blanket exemption for Defense Credit Unions operating on overseas installations. While there are provisions in the DoD Financial Management Regulation that may permit Host-Nations to offer an exemption, Defense Credit Unions are at risk. Without such an exemption, the following impacts are of concern.
 - Impact on Overseas Operations – Because Defense Credit Unions have members stationed all over the world, the laws apply any time a transaction is made in a European Union member nation-state.

The Armed Forces Financial Network



One of the greatest successes of the DoD Military Banking Program and its collaboration with AMBA and DCUC has been the formation and growth of the Armed Forces Financial Network. Begun in 1985 at the request of DoD, this ATM/Point-of-Sale debit network enables our troops and their families to access their stateside bank accounts at reduced cost from wherever they may be stationed or deployed.

Originally established in response to DoD’s transition to the Direct Deposit military pay program, AFFN remains today as DoD’s “expeditionary banking” platform.

AFFN remains a good news story today, continuing to serve those who serve through programs such as:

- AFFN supports the DoD Community Bank Program worldwide
- AFFN supports the DoD Travel Card Program through Citibank
- AFFN supports the Navy/Marine Card Program through PNC Bank
- AFFN continues to create and support unique sharing/reciprocal relationships worldwide in support of our Troops in Africa, Europe, China, and the Middle East (at no cost to DoD and at reduced cost to our troops and to AMBA banks and DCUC credit unions)
- AFFN supports Veteran-Owned Businesses by processing payments at competitive interchange and donates back with every transaction processed

AFFN not only enables our troops and their families to reach back to their hometown banks and credit unions wherever they serve in the world, it also provides monetary support back to the military and veteran communities. AFFN’s community support is unmatched among public-private endeavors:

- Each year, AFFN’s military community support program contributes matching grants to military and veteran community programs and organizations at home and around the globe.

- AFFN sponsors fundraising events for the benefit of military and veteran causes.
- Over \$3M+ has been donated directly to military communities through this unique giving campaign.
- AFFN is a major contributor to the Fisher House Foundation, offering \$50 pre-paid THANK YOU cards (gift cards) to the families of wounded, injured, and deceased military members when they stay at Fisher Houses. Over 16,000 military families have been served since 2004 at every Fisher House location from Landstuhl, Germany to Tripler AMC, Hawaii.
- AFFN has supported every Wounded Warrior and Military Family Member attending the DoD Warrior Games since inception.
 - AFFN presents each family member with a \$50 pre-paid THANK YOU card for travel incidentals, expenses, etc.
 - AFFN also supported every Wounded Warrior and Military Family at the 2016 Invictus Games, Orlando, FL.

Over the past several years, AFFN has experienced obstacles and turbulence as DoD has seemingly forgotten about its role in AFFN's creation and AFFN's role in the financial readiness of its troops:

- As discussed above, AFFN was ignored as a potential source of MLA "covered borrower" data. Instead, the three largest credit reporting agencies were given a monopoly in this arena.
- AFFN does not participate in the Military Star Card program.
- AFFN is not accepted at the VA Canteen Service.
- Commercial network influence over Point-of-Sale routing at DeCA and AAFES has resulted in other brands being favored over AFFN.

As the only ATM/Point-of-Sale network with roots in the military and veteran communities, we hope DoD will consider AFFN part of its financial readiness team and help remove these obstacles.